

Bahrain Middle East Bank B.S.C.

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

30 SEPTEMBER 2017 (Reviewed)

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE BOARD OF DIRECTORS OF BAHRAIN MIDDLE EAST BANK B.S.C.

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Bahrain Middle East Bank B.S.C. ("the Bank") and its subsidiaries (together "the Group") as at 30 September 2017, comprising of the interim condensed consolidated statement of financial position as at 30 September 2017 and the related interim condensed consolidated statements of income, comprehensive income, cash flows and changes in equity for the nine-month period then ended and explanatory notes. The Board of Directors of the Bank is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing. Consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.



23 October 2017
Manama, Kingdom of Bahrain

Bahrain Middle East Bank B.S.C.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 September 2017 (Reviewed)

	Note	<i>Reviewed</i> 30 September 2017 US\$ '000	<i>Audited</i> 31 December 2016 US\$ '000
ASSETS			
Balances with banks and financial institutions		16,710	40,374
Treasury bills and placements with banks		28,708	4,207
Investments at fair value through profit or loss		9,173	1,149
Loans and advances	3	129,606	123,958
Available-for-sale investments	4	3,369	5,021
Held-to-maturity investment		-	179
Other assets		3,451	2,464
TOTAL ASSETS		191,017	177,352
LIABILITIES AND EQUITY			
LIABILITIES			
Due to financial institutions		143,900	126,567
Due to customers		3,129	8,405
Other liabilities		1,328	2,443
Total liabilities		148,357	137,415
EQUITY			
Share capital		60,501	60,501
Accumulated losses		(17,841)	(21,481)
Fair value reserve		-	917
Total equity		42,660	39,937
TOTAL LIABILITIES AND EQUITY		191,017	177,352



Wilson S Benjamin
Chairman



Murat Solak
Vice Chairman



Gaurav Baid
Acting Chief Executive Officer

The attached notes 1 to 10 form part of these interim condensed consolidated financial statements

Bahrain Middle East Bank B.S.C.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

For the nine-month period ended 30 September 2017 (Reviewed)

	Note	Three-month period ended 30 September		Nine-month period ended 30 September	
		2017 US\$ '000	2016 US\$ '000	2017 US\$ '000	2016 US\$ '000
OPERATING INCOME					
Interest income		2,926	2,747	8,708	8,051
Interest expense		(82)	(244)	(209)	(837)
Net interest income		2,844	2,503	8,499	7,214
Investment banking income	6	59	177	26	478
Other income		63	70	150	300
Foreign exchange gain (loss)		22	(17)	97	(66)
Total operating income		2,988	2,733	8,772	7,926
OPERATING EXPENSES					
Staff expenses		454	772	2,005	2,313
Premises expenses		130	59	304	229
Other operating expenses		221	220	789	574
Total operating expenses		805	1,051	3,098	3,116
NET PROFIT FOR THE PERIOD BEFORE IMPAIRMENT PROVISIONS					
		2,183	1,682	5,674	4,810
Impairment provisions - net	5	(750)	139	(2,034)	(177)
NET PROFIT FOR THE PERIOD		1,433	1,821	3,640	4,633
BASIC AND DILUTED EARNINGS PER SHARE (IN US\$ CENTS)					
		0.59	0.75	1.50	1.91



Wilson S Benjamin
Chairman



Murat Solak
Vice Chairman



Gaurav Baid
Acting Chief Executive Officer

The attached notes 1 to 10 form part of these interim condensed consolidated financial statements

Bahrain Middle East Bank B.S.C.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the nine-month period ended 30 September 2017 (Reviewed)

	<i>Three-month period ended 30 September</i>		<i>Nine-month period ended 30 September</i>	
	<i>2017</i>	<i>2016</i>	<i>2017</i>	<i>2016</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
NET PROFIT FOR THE PERIOD	1,433	1,821	3,640	4,633
Other comprehensive income (loss):				
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:				
Fair value reserves (available-for-sale investments):				
Net amount transferred to statement of income on sale/impairment	-	-	-	21
Net changes in fair value during the period	-	28	(917)	(401)
Total other comprehensive income (loss) for the period	-	28	(917)	(380)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	1,433	1,849	2,723	4,253

Bahrain Middle East Bank B.S.C.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the nine-month period ended 30 September 2017 (Reviewed)

	Note	Nine-month period ended 30 September	
		2017	2016
		US\$ '000	US\$ '000
OPERATING ACTIVITIES			
Net profit for the period		3,640	4,633
Adjustments for:			
Impairment provisions - net	5	2,034	177
Depreciation		57	34
Changes in operating assets and liabilities:			
Investments at fair value through profit or loss		(8,024)	(1,102)
Loans and advances		(7,398)	(1,801)
Available-for-sale investments		635	3,207
Held-to-maturity investment		(5)	27
Other assets		(1,044)	300
Due to financial institutions		17,333	11,406
Due to customers		(5,276)	2,411
Other liabilities		(1,115)	(1,210)
Net cash from operating activities		837	18,082
NET CHANGE IN CASH AND CASH EQUIVALENTS		837	18,082
Cash and cash equivalents at 1 January		44,581	48,371
CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER		45,418	66,453
CASH AND CASH EQUIVALENTS COMPRISE:			
Balances with banks and financial institutions		16,710	14,052
Treasury bills and placements with banks with original maturities of three months or less		28,708	52,401
		45,418	66,453

The attached notes 1 to 10 form part of these interim condensed consolidated financial statements

Bahrain Middle East Bank B.S.C.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine-month period ended 30 September 2017 (Reviewed)

	<i>Share capital</i> US\$ '000	<i>Accumulated losses</i> US\$ '000	<i>Fair value reserve</i> US\$ '000	<i>Total equity</i> US\$ '000
Balance at 1 January 2017	60,501	(21,481)	917	39,937
Total comprehensive income (loss) for the period	-	3,640	(917)	2,723
Balance at 30 September 2017	60,501	(17,841)	-	42,660
Balance at 1 January 2016	60,501	(26,554)	1,315	35,262
Total comprehensive income (loss) for the period	-	4,633	(380)	4,253
Balance at 30 September 2016	60,501	(21,921)	935	39,515

The attached notes 1 to 10 form part of these interim condensed consolidated financial statements

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2017 (Reviewed)

1 INCORPORATION AND ACTIVITIES

Bahrain Middle East Bank B.S.C. ("the Bank") is a Bahraini Shareholding Company incorporated in the Kingdom of Bahrain. On 9 April 2007, the Central Bank of Bahrain ("the CBB") issued a Conventional Wholesale Banking license to the Bank. The commercial registration ("CR") number of the Bank is 12266. The Bank is listed on the Bahrain Bourse under the ticker 'BMB'. AN Investment W.L.L., a limited liability company incorporated in the Kingdom of Bahrain, is the Parent company of the Bank. The principal activities of the Bank and its subsidiaries (together "the Group") are trade finance, corporate advisory and asset management services.

The registered office of the Bank is BMB Centre, Building 135, Road 1702, Block 317, Diplomatic Area, Manama, Kingdom of Bahrain.

These interim condensed consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 23 October 2017.

2 BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

2.1 Basis of preparation

The interim condensed consolidated financial statements of the Group for the nine-month period ended 30 September 2017 are prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not contain all the information and disclosures required for full financial statements prepared in accordance with International Financial Reporting Standards, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2016. In addition, results for the nine-month period ended 30 September 2017 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2017.

2.2 Significant accounting policies

The accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2016, except for the adoption of new standards and interpretations effective for annual period beginning on or after 1 January 2017.

The below new standards and amendments apply for the first time in 2017. However, they do not have a material impact on the interim condensed consolidated financial statements of the Group:

- *IAS 7 Disclosure Initiative - Amendments;*
- *IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses - Amendments; and*
- *IFRS 12 Disclosure of Interests in Other Entities - Clarification of the scope of the disclosure requirements in IFRS 12.*

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective, such as:

- *IFRS 9 Financial Instruments: effective date 1 January 2018;*
- *IFRS 15 Revenue from Contracts from Customers: effective date 1 January 2018; and*
- *IFRS 16 Leases: effective date 1 January 2019.*

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2017 (Reviewed)

3 LOANS AND ADVANCES

	<i>Reviewed</i> 30 September 2017 US\$ '000	<i>Audited</i> 31 December 2016 US\$ '000
Trade finance	126,259	118,861
Installment sale receivable (refer note 7)	3,533	3,533
Corporate loan (refer note 7)	3,000	3,000
	132,792	125,394
Less: Provision for loan losses	(3,186)	(1,436)
	129,606	123,958

The breakup of provision for loan losses is as follows:

	<i>Reviewed</i> 30 September 2017 US\$ '000	<i>Audited</i> 31 December 2016 US\$ '000
Specific impairment provision	1,750	-
Collective impairment provision	1,436	1,436
	3,186	1,436

4 AVAILABLE-FOR-SALE INVESTMENTS

	<i>Reviewed</i> 30 September 2017 US\$ '000	<i>Audited</i> 31 December 2016 US\$ '000
<i>Equity and managed funds investments:</i>		
Unquoted equity fund investments	3,369	5,021

5 IMPAIRMENT PROVISIONS

	30 September 2017 (Reviewed)			
	<i>Loans and advances</i> US\$ '000	<i>Available- for-sale investments</i> US\$ '000	<i>Held-to- maturity investment</i> US\$ '000	<i>Total</i> US\$ '000
At 1 January 2017	1,436	3,000	-	4,436
Charge for the period	1,750	100	184	2,034
Written-off	-	-	(184)	(184)
At 30 September 2017	3,186	3,100	-	6,286

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2017 (Reviewed)

5 IMPAIRMENT PROVISIONS (continued)

	30 September 2016 (Reviewed)		
	Loans and advances US\$ '000	Available-for-sale investments US\$ '000	Total US\$ '000
At 1 January 2016	2,936	10,813	13,749
Charge for the period	-	334	334
Recovery	(157)	-	(157)
Written-off	(1,343)	(7,241)	(8,584)
Foreign exchange movements	-	36	36
At 30 September 2016	1,436	3,942	5,378
At 31 December 2016	1,436	3,000	4,436

6 INVESTMENT BANKING INCOME

	Reviewed Nine-month period ended 30 September 2017 US\$ '000	Reviewed Nine-month period ended 30 September 2016 US\$ '000
Fee and commission income	79	810
Gain (loss) from available-for-sale investments - net	71	(130)
Loss from investments at fair value through profit or loss - net	(124)	(202)
	26	478

7 RELATED PARTY TRANSACTIONS AND BALANCES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include entities over which the Bank exercises significant influence, major shareholders, directors, key management personnel of the Bank and entities owned, controlled, jointly controlled or significantly influenced by such parties.

Key management personnel of the Group are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. Key management personnel comprise the Board of Directors, Chief Executive Officer, Chief Financial Officer and Heads of Departments. Transactions entered during the period and balances at period-end are set out below:

All related party transactions are on terms equivalent to arm's length transactions and are approved by the Board of Directors.

	Key management personnel		Shareholders and their related parties	
	Reviewed 30 September 2017 US\$ '000	Audited 31 December 2016 US\$ '000	Reviewed 30 September 2017 US\$ '000	Audited 31 December 2016 US\$ '000
Assets				
Loans and advances	-	-	3,000	-
Liabilities				
Deposits	-	-	364	139
Other liabilities - employee leaving indemnity	234	225	-	-

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2017 (Reviewed)

7 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

	<i>Reviewed Nine-month period ended 30 September 2017 US\$ '000</i>	<i>Reviewed Nine-month period ended 30 September 2016 US\$ '000</i>	<i>Reviewed Nine-month period ended 30 September 2017 US\$ '000</i>	<i>Reviewed Nine-month period ended 30 September 2016 US\$ '000</i>
Statement of income				
Interest income	-	-	199	-
Investment banking income	-	-	-	7

Key management compensation

Compensation to key management personnel, including directors, included in the consolidated statement of income is as follows:

	<i>Reviewed Nine-month period ended 30 September 2017 US\$ '000</i>	<i>Reviewed Nine-month period ended 30 September 2016 US\$ '000</i>
Salaries and other short-term employee benefits	1,066	1,264
Employee leaving indemnity	24	21
	<u>1,090</u>	<u>1,285</u>
Directors' fees	<u>96</u>	<u>72</u>

Guarantee

The Bank has received a corporate guarantee from a shareholder with regard to the Bank's installment sale receivable (refer note 3), and an additional guarantee from two associates of the shareholder.

8 SEGMENT RESULTS**Segment information**

For management purposes, the Group is organised into three major business segments:

Financing	- Financing and trade finance
Investing	- Investments in listed bonds, equities and private equity funds
Other operating segments	- Corporate advisory, asset management services and building management etc.

The Group's business segments are broken down by key business activities and those with clearly identifiable revenue streams and expenses. The segmentation is in line with segments internally reported to the Chief Executive Officer, who is the chief decision maker.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2017 (Reviewed)

8 SEGMENT RESULTS (continued)

Segment information for the period ended 30 September 2017 is as follows:

	<i>Nine-month period ended 30 September 2017 (Reviewed)</i>			
	<i>Financing</i> US\$ '000	<i>Investing</i> US\$ '000	<i>Others</i> US\$ '000	<i>Total</i> US\$ '000
Interest income	8,689	19	-	8,708
Interest expense	(209)	-	-	(209)
Investment banking (loss) income	-	(53)	79	26
Other income	-	-	150	150
Foreign exchange gain	-	-	97	97
Results from operations	8,480	(34)	326	8,772
Impairment provisions - net (note 5)	(1,750)	(284)	-	(2,034)
Segment profit (loss)	6,730	(318)	326	6,738
Unallocated corporate expenses				(3,098)
Net profit for the period				3,640
Segment assets as at 30 September 2017	177,871	12,618	528	191,017
Segment liabilities as at 30 September 2017	147,058	-	1,299	148,357

Segment information for the period ended 30 September 2016 is as follows:

	<i>Nine-month period ended 30 September 2016 (Reviewed)</i>			
	<i>Financing</i> US\$ '000	<i>Investing</i> US\$ '000	<i>Others</i> US\$ '000	<i>Total</i> US\$ '000
Interest income	7,987	64	-	8,051
Interest expense	(837)	-	-	(837)
Investment banking income (loss)	169	(332)	641	478
Other income	-	-	300	300
Foreign exchange loss	-	-	(66)	(66)
Results from operations	7,319	(268)	875	7,926
Impairment provisions - net (note 5)	157	(334)	-	(177)
Segment profit (loss)	7,476	(602)	875	7,749
Unallocated corporate expenses				(3,116)
Net profit for the period				4,633
Segment assets as at 31 December 2016	170,619	6,349	384	177,352
Segment liabilities as at 31 December 2016	134,990	-	2,425	137,415

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2017 (Reviewed)

9 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group's financial instruments are accounted for under the historical cost convention except for the measurement at fair value of investments at fair value through profit or loss and available-for-sale investments. Fair value is the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Consequently, differences can arise between the book amounts and the fair value estimates.

Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Valuation techniques based on observable inputs, either directly or indirectly. This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3 - Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation (i.e. net asset value received from administrator / fund managers).

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

The following table shows the carrying amounts and fair values of financial instruments, including their levels in the fair value hierarchy. It does not include fair value information for financial instruments not measured at fair value if the carrying amount is a reasonable approximation of fair value:

	30 September 2017 (Reviewed)				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Financial assets measured at fair value:					
Investments at fair value					
through profit or loss	9,006	-	167	9,173	9,173
Available-for-sale investments	-	-	3,369	3,369	3,369

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2017 (Reviewed)

9 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

<i>31 December 2016 (Audited)</i>					
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total fair values</i>	<i>Total carrying amount</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
<i>Financial assets measured at fair value:</i>					
Investments at fair value through profit or loss	849	-	300	1,149	1,149
Available-for-sale investments	-	-	5,021	5,021	5,021
<i>Financial assets not measured at fair value:</i>					
Held-to-maturity investment	-	-	149	149	179

Management has assessed that the fair values of financial assets comprising of balances with banks and financial institutions, treasury bills and placements with banks, loans and advances and other assets, and financial liabilities comprising of due to financial institutions, due to customers and other liabilities approximate their carrying amounts.

Movements in level 3 fair value hierarchy of investments:

	<i>Reviewed</i>	<i>Audited</i>
	<i>30 September</i>	<i>31 December</i>
	<i>2017</i>	<i>2016</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>
At 1 January	5,321	7,036
Additions	22	5
Exits (at cost)	(657)	(895)
Net fair value movement	(1,050)	(184)
Impairment / fair value transferred to statement of income on disposals	(100)	(641)
	<u>3,536</u>	<u>5,321</u>

Level 3 investments represent fund investments where the underlying fund managers exercise judgements in valuation of investments.

During the period, there were no transfers between Level 1 and Level 2 fair value hierarchy, and no transfers into and out of Level 3 fair value hierarchy.

10 COMMITMENTS AND CONTINGENT LIABILITIES

The outstanding commitments and contingent liabilities of the Group are as follows:

	<i>Reviewed</i>	<i>Audited</i>
	<i>30 September</i>	<i>31 December</i>
	<i>2017</i>	<i>2016</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>
Undrawn investment commitments in equity funds	3,584	4,522
Other commitments	2,579	2,579
	<u>6,163</u>	<u>7,101</u>